



J. TYLER McCaULEY  
AUDITOR-CONTROLLER

## COUNTY OF LOS ANGELES DEPARTMENT OF AUDITOR-CONTROLLER

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TO: Supervisor Yvonne Brathwaite Burke, Chair  
Supervisor Gloria Molina  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley *tm*  
Auditor-Controller

SUBJECT: **SHERIFF'S DEPARTMENT CONTRACTING STATUS REPORT –  
FEBRUARY 2003**

In September 2002, based on concerns with retroactive contracts and other issues, the Board considered no longer allowing the Sheriff to perform its own contracting and purchasing functions. In October, the Board accepted the Chief Administrative Officer's (CAO) recommendation to allow the Sheriff to continue to perform these functions with the assistance of the Internal Services Department (ISD) and Auditor-Controller. The Board also approved the Sheriff's corrective action plan to address the Board's concerns.

In December, the Sheriff, CAO, ISD and my office issued a joint report detailing the progress the Sheriff had made to date. In that report, we indicated that the Auditor-Controller would monitor the Sheriff's progress and report to your Board quarterly. Attached is our first report on the Sheriff's progress in improving its contracting and purchasing functions.

Our review included detailed testwork of a sample of Sheriff contracts to ensure the Sheriff's new contract database is accurate and functional. In addition, we tested a sample of recent purchases to ensure Sheriff staff are following the Department's new contracting and purchasing procedures. We also interviewed staff and managers from the Sheriff, ISD, CAO and Chief Information Office.

### REVIEW SUMMARY

Our review indicates that the Sheriff has made progress in implementing the corrective action plan and is improving its contracting and purchasing operations. For example, the Sheriff has reorganized their Contracting Unit to provide a greater level of accountability and oversight, implemented a tracking system for their Board-approved contracts, and developed procedures for on-going reviews of payment requests to identify potential purchasing violations.

However, our review also noted the Sheriff needs to take further action to fully implement the corrective action plan for the Contracting Unit. For example, we noted that the reorganized Contracting Unit is not fully staffed. In addition, we observed that violations of County purchasing rules are still occurring and not being detected.

We discussed the results of our review with Sheriff management. They indicated agreement with our findings. Sheriff management has committed to continue their efforts to improve their contracting and purchasing operations. Details of our findings are attached.

Please call me if you have any questions, or your staff may contact DeWitt Roberts at (626) 293-1101.

JTM:DR:MP

Attachment

c: Sheriff Lee Baca  
David E. Janssen, CAO  
Joan Ouderkirk, ISD  
John Fullinwider, CIO  
Violet Varona-Lukens, Executive Officer  
Public Information Office  
Audit Committee

**Sheriff's Contracting and Purchasing Operations  
Quarterly Status Report**

**Contracting Infrastructure**

**Sheriff's Corrective Action Plan**

The Sheriff's corrective action plan indicated that the Contracting Unit needed to be restructured to bring the Department into compliance with County policies and procedures.

**Current Status**

Effective January 5, 2003, the Sheriff reorganized its contracting functions into two sections: Contract Administration and Contract Monitoring.

We reviewed the new organization structure and noted that it appears to improve accountability and oversight. Under the new structure, the Contract Administration and Contract Monitoring Section Heads report directly to a newly assigned Assistant Director, instead of reporting to a Captain under the prior organization. The Assistant Director is no longer responsible for the Sheriff's budget and item control functions and, therefore, can spend more time on contracting. The CAO also reviewed the Sheriff's new organizational structure and agrees that it should improve accountability and oversight.

**Additional Actions to be Taken**

The Contracting Unit currently has three vacant budgeted positions that need to be filled. In addition, the Sheriff's fiscal year 2003-04 budget request includes 11 additional positions for the Contracting Unit. This would effectively make the Contracting Unit a separate bureau with a dedicated Director, and allow the Director to focus entirely on contracting. The CAO and Department of Human Resources are currently reviewing the budget request.

**Training Manual and Policies and Procedures**

**Sheriff's Corrective Action Plan**

The Sheriff's corrective action plan indicated they would develop a contracting training manual and contracting policies and procedures.

**Current Status**

Ten of the Sheriff's contract analysts have attended the County's two-day Orientation to County Contracting Principles training and the remaining three analysts will attend the training as soon as space becomes available in the class. Staff also received training directly from the Internal Services Department (ISD) and the Auditor-Controller, and further training is being planned.

In February 2003, ISD issued a Countywide Services Contracting Manual. The Sheriff's Contracting Unit is currently reviewing the ISD manual and is planning to adopt it as their training/policy and procedures manual. The Department is also planning on supplementing the manual with Sheriff specific contracting policies and procedures.

Overall, it appears the Sheriff is taking appropriate steps to train staff and develop procedures.

### **Contract Tracking System**

#### **Sheriff's Corrective Action Plan**

County departments are limited in the services they can obtain through purchase orders to \$100,000 per vendor, per project. Services in excess of \$100,000 must be obtained under a Board-approved contract. The Sheriff's corrective action plan indicated they planned to develop systems to track purchase order expenditures to avoid cumulative purchases for services greater than \$100,000 that may require Board approved contracts. In addition, the Sheriff indicated they would develop systems to track contract expenditures and termination dates to minimize retroactive contracts.

#### **Current Status**

The Sheriff has developed two tracking databases. Purchase orders (POs) for services are recorded on the Account Threshold Manager (ATM) system and Board approved contract information is recorded on the Contract Monitoring Information System (CMIS).

#### **Purchase Order Monitoring System**

Although modifications are still in process for the ATM system's report function, we noted the Department is currently using it to track POs for purchases for services that may exceed \$100,000 and require Board approval.

Department management indicated that the purchase order population in the ATM database currently contains extraneous information not utilized by the Department (e.g., purchase orders for commodities). Therefore, we did not conduct detailed testwork on a sample of purchase orders. Management is working to enhance the database and we will report on the Department's progress as part of our next status report.

#### **Contract Monitoring System**

The CMIS system is relatively complete and the Sheriff is using it to provide the CAO with required monthly contracting reports. The system contains information needed to track contract expenditures, cost overruns, and renewal/termination dates. The system also produces reports to alert staff to key future events such as the need to begin new solicitations or exercise renewal options. In addition, the system can provided alerts when contract spending limits are being reached.

We tested five contracts in the CMIS database and found the total year-to-date expenditures for one contract were understated by approximately \$280,000. In addition, we noted minor discrepancies between the information in CMIS and the contracts (e.g., differences in the project name and name of the project analyst). The Department is working to correct these problems. Overall, if properly maintained and used, it appears CMIS should significantly minimize retroactive contracts and cost overruns.

The CIO is conducting an in-depth review of the Sheriff's CMIS and will be reporting their results separately to the Sheriff, the CAO and my office.

#### Countywide Contract Monitoring System

The Auditor-Controller is developing a Countywide contracting reporting database. The system will automatically issue reports on key contracting criteria, such as spending limits and expiration dates. The system will provide the Sheriff with another tool to monitor its contracts. Auditor-Controller staff are working with Sheriff personnel to minimize duplication of effort between the two systems.

#### **Manager Accountability**

##### Sheriff's Corrective Action Plan

The Sheriff's corrective action plan indicated they would improve manager accountability by informing managers of County purchasing guidelines and disciplining managers who violated the guidelines.

##### Current Status

The Sheriff notified the Unit Commanders in writing that they are accountable for complying with County contracting and purchasing policies, and are subject to discipline for any violations. The Department is working to incorporate this policy into their policies and procedures manual.

We noted the disciplinary provisions are somewhat vague. Sheriff management indicated they intentionally left the provisions broad so that management could determine discipline on a case-by-case basis. We will review compliance with the disciplinary policies and disciplinary actions taken as part of our next progress report.

The Sheriff has also taken the following additional actions to improve accountability over contracting and contract monitoring:

- Completed a "Protocol Checklist" to be used by the Sheriff's Contract Analysts in preparing Requests For Proposals (RFPs). The checklist includes appropriate step-by-step instructions for preparing RFPs, and completion dates for specific tasks.

Contracting Unit management is using the checklist to monitor the progress of two RFPs that are currently being developed.

- Drafted contract file policies that specify the documents and information that must be included in each Board-approved contract file. The draft policies appear appropriate.
- Began drafting a checklist of procedures to be used to monitor vendor compliance with contract terms and contract expenditures. Fiscal Administration anticipates finalizing the checklist by the end of March 2003 and implementing the procedures by the end of April 2003.
- Drafted policies for quarterly meetings between contracting staff and project directors and managers to discuss the current status of contracts. The Department anticipates starting these quarterly meetings during the second quarter of calendar year 2003.

Overall, we believe the Department is taking appropriate actions to improve accountability. Since most of these policies and procedures have not yet been finalized or fully implemented, we will include an updated status in our next progress report.

### **Centralization of Purchasing Function**

#### **Sheriff's Corrective Action Plan**

To strengthen purchasing controls, the Sheriff indicated they would centralize purchasing approvals by requiring Division level budget staff to approve all non-agreement purchases. Previously, only Unit/Section Head approval was required.

In addition, the Sheriff is having the Department's Accounts Payable (AP) Section review all non-agreement purchases to identify potential purchasing violations, and ensure that non-agreement purchases are approved at the Division level. When a violation is identified, AP is supposed to issue a violation notice to the affected Division Chief who must respond within two weeks.

#### **Current Status**

The Sheriff began requiring Division level budget staff to approve all non-agreement vendor purchases at the end of December 2002. In addition, the Sheriff's Accounts Payable Section has begun implementing reviews of non-agreement payment requests.

We noted that AP prepared approximately 30 violation notices because of orders being placed without prior approval, no documentation of obtaining the required number of bids for non-agreement purchases, and other violations. However, the unit did not send the notices out because they have not developed a log to track the violations. Department management indicated they are going to immediately issue the notices.

We reviewed 12 recent non-agreement purchases and noted the following exceptions that had not been previously identified by the Account Payable Section.

- In one instance, required Division level budget staff approval was not obtained.
- In three instances, the Sheriff purchased items that were covered by County agreements from non-agreement vendors. Sheriff staff did not document the reasons for using non-agreement vendors. In one of the three instances, the Sheriff paid approximately \$390 more than the agreement price.
- In three instances, we could not verify adequate separation of duties because the Department's documentation did not indicate either the staff who placed the order or the staff who received the goods/services as required by the County Fiscal Manual.

We also tested five transactions with County agreement vendors and noted the following exceptions that were not previously detected.

- For two purchases, the Department did not receive the agreement price. The vendors overcharged the Department approximately \$350 for these purchases. We noted the Department does not require AP staff to verify agreement prices before payment is made.
- For three purchases, we could not verify adequate separation of duties because again the Department's documentation did not indicate either who had placed the order or who had received the goods/services.

In addition to the testwork described above, we noted an instance where two orders for similar commodities totaling approximately \$6,200 were placed with the same vendor on the same day. Therefore, it appears these two orders were fragmented to circumvent the Department's \$5,000 non-agreement purchasing authority. Sheriff's Fiscal Administration management indicated they would investigate this potential violation and would issue a violation notice if appropriate.

Sheriff management indicated that A/P's review of payments was not designed to detect the types of violations described above. In addition, we noted that A/P staff do not have payment review procedures or checklists of potential violations to assist them with their reviews.

*Additional Actions to be Taken*

While the Sheriff has taken actions to improve compliance with County purchasing policies, the above findings indicate that more needs to be done. Specifically, the Sheriff needs to:

- Work with ISD to develop procedures and checklists to monitor compliance with County purchasing requirements, and identify and train appropriate staff to perform the monitoring.
- Ensure purchasing violation notices are issued to the responsible Division Chiefs and develop a tracking log to monitor the process.

**Special Operations Units**

*Sheriff Corrective Action Plan*

Based on the specialized services required by some units (e.g., Aero Bureau), the Sheriff indicated they would work with ISD to develop agreements for repetitive non-agreement purchases.

*Current Status*

Sheriff management met with ISD in February to discuss developing agreements for repetitive non-agreement purchases. In addition, the Sheriff analyzed the Aero Bureau's non-agreement purchases, and submitted requests to ISD to establish agreements with approximately 30 vendors. The Sheriff indicated they will also be working with other specialized units such as Medical Services to identify additional non-agreement vendors that may be candidates for agreement.